

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

G U A T E M A L A

URBAN POVERTY REDUCTION PROGRAM

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Approved on June 19, 2002**

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GUATEMALA

URBAN POVERTY REDUCTION PROGRAM

(GU-0155)

LOAN PROPOSAL

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CONTENTS

EXECUTIVE SUMMARY

I.	FRAME OF REFERENCE.....	1
A.	Profile of poverty in Guatemala.....	1
B.	The metropolitan area.....	1
1.	The precariousness of marginal settlements.....	2
C.	Institutional framework.....	5
D.	Bank experience	6
E.	Lessons learned and program strategy	7
F.	Country and Bank strategy in the sector	8
II.	THE PROGRAM	9
A.	General objective.....	9
B.	Specific objectives.....	9
C.	Program description and components	9
1.	Integrated projects	10
2.	Program management.....	13
3.	Other program costs	14
D.	Selection of settlements and eligibility criteria	14
E.	Cost and financing.....	16
F.	Terms of the financing	17
III.	ORGANIZATION AND ADMINISTRATION	18
A.	Borrower and executing agency	18
B.	Institutional framework.....	18
1.	Secretariat of Executive Coordination of the Office of the President of the Republic (SCEP).....	18
2.	Municipalities	19
3.	Other participating entities.....	19
C.	Execution plan	20
1.	Operating Regulations.....	20
2.	Project cycle.....	20
D.	Procurements of works, goods, and consulting services	22
E.	Execution plan and disbursements	22
F.	Monitoring and evaluation.....	23
G.	Accounting and external audit	24

IV. FEASIBILITY, BENEFITS, AND RISKS	26
A. Technical feasibility	26
B. Economic feasibility.....	27
C. Social feasibility	30
D. Institutional feasibility.....	30
E. Program sustainability	32
F. Environmental feasibility	32
G. Targeting poor beneficiaries	34
H. Gender considerations	34
I. Benefits and risks	34

ANNEXES

Annex I	Logical framework
Annex II	Procurement plan

ABBREVIATIONS

BANVI	Banco Nacional de la Vivienda [National Housing Bank]
CSO	Civil society organization
DAHVI	Office of Human Settlements and Housing
EIA	Environmental impact assessment
EMPAGUA	Empresa Municipal de Agua Potable y Alcantarillado de Guatemala [Guatemala City Drinking Water and Sewerage Company]
GCMA	Guatemala City metropolitan area
ICB	International competitive bidding
LB	Limited bidding
LCB	Local competitive bidding
NGO	Nongovernmental organization
OC	Ordinary Capital
PCU	Program Coordinating Unit
PPF	Project Preparation Facility
SCEP	Secretariat of Executive Coordination of the Office of the President of the Republic
SPN	Special procurement notice
UBN	Unmet basic need



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Guatemala

Tentative Lending Program

2002

Project Number	Project Name	IDB US\$ Millions	Status
GU0133	Priority Basin Natural Resources	40.0	APPROVED
GU0119	Financial Sector Reform Program II	200.0	APPROVED
GU0158	Labor Market Program	10.0	APPROVED
GU0155	Progr. Against Urban Poverty	54.0	
*GU0151	Capital Expen. Electricity Distribution	25.0	
Total - A : 5 Projects		329.0	
GU0126	Rural Electrification Program	92.0	
GU0143	Modernization of National Congress	12.0	
GU0170	Housing / Population Census	22.0	
GU0164	National System Services and Goods Contr.	6.8	
GU0165	Electoral Supreme Tribunal Modernization	15.0	
GU0159	Training and Literacy Workshops	10.0	
GU0163	Citizen Security	30.0	
GU0066	Sanitation & Sust.management Amatitlan Basin	21.0	
GU0150	Rural Water Investment Program	50.0	
Total - B : 9 Projects		258.8	
TOTAL 2002 : 14 Projects		587.8	

2003

Project Number	Project Name	IDB US\$ Millions	Status
GU0153	Supplement Housing Program	20.0	
GU0154	Microcredit Global Program	15.0	
GU0166	Education Reform Support (ARE III)	40.0	
GU0169	Social Security Program	100.0	
GU0171	Electric Interconnection	30.0	
Total - A : 5 Projects		205.0	
GU0157	Pov. Red. Strat Implementation	30.0	
Total - B : 1 Projects		30.0	
TOTAL - 2003 : 6 Projects		235.0	
Total Private Sector 2002 - 2003		25.0	
Total Regular Program 2002 - 2003		797.8	

* Private Sector Project



GUATEMALA

IDB LOANS

APPROVED AS OF APRIL 30, 2002

	US\$Thousand	Percent
TOTAL APPROVED	2,224,819	
DISBURSED	1,777,057	79.9%
UNDISBURSED BALANCE	447,762	20.1%
CANCELLATIONS	254,214	11.4%
PRINCIPAL COLLECTED	729,321	32.8%
APPROVED BY FUND		
ORDINARY CAPITAL	1,526,579	68.6%
FUND FOR SPECIAL OPERATIONS	627,937	28.2%
OTHER FUNDS	70,303	3.2%
OUTSTANDING DEBT BALANCE	1,047,736	
ORDINARY CAPITAL	644,922	61.6%
FUND FOR SPECIAL OPERATIONS	396,050	37.8%
OTHER FUNDS	6,763	0.6%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	179,590	8.1%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	207,129	9.3%
ENERGY	316,557	14.2%
TRANSPORTATION AND COMMUNICATIONS	435,940	19.6%
EDUCATION	65,628	2.9%
HEALTH AND SANITATION	301,262	13.5%
ENVIRONMENT	64,300	2.9%
URBAN DEVELOPMENT	177,308	8.0%
SOCIAL INVESTMENT AND MICROENTERPRISE	240,522	10.8%
REFORM PUBLIC SECTOR MODERNIZATION	234,818	10.6%
EXPORT FINANCING	1,764	0.1%
PREINVESTMENT AND OTHER	0	0.0%

* Net of cancellations with monetary adjustments and export financing loan collections



INTER-AMERICAN DEVELOPMENT BANK
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GUATEMALA

STATUS OF LOANS IN EXECUTION AS OF APRIL 30, 2002

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
Before 1996	4	84,700	79,218	93.53%
1996 - 1997	8	195,110	164,791	84.46%
1998 - 1999	9	431,672	132,871	30.78%
2000 - 2001	5	73,351	0	0.00%
2002	1	40,000	0	0.00%
TOTAL	27	\$824,833	\$376,881	45.69%

* Net of Cancellations . Excluding export financing loans.

URBAN POVERTY REDUCTION PROGRAM

(GU-0155)

EXECUTIVE SUMMARY

Borrower:	Republic of Guatemala	
Executing agency:	Secretariat of Executive Coordination of the Office of the President of the Republic (SCEP)	
Amount and source:	IDB: (OC)	US\$46.8 million
	Local:	US\$ 5.2 million
	Total:	US\$52.0 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	4.5 years
	Disbursement period:	4.5 years maximum 3 years minimum
	Start-up of works	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	US\$ from the Single Currency Facility.
Objectives:	<p>The general objective of the program is to help reduce poverty in urban areas of the Department of Guatemala (AUDG), by improving the living conditions of the residents of urban shantytowns in the municipalities of Guatemala, Chinautla, and Villanueva.</p> <p>The specific objectives are: (i) to offer comprehensive access to basic infrastructure and sanitation services to approximately 85,000 residents of 32 shantytowns in the Guatemala City metropolitan area (GCMA); (ii) to create and/or improve social services to protect at-risk groups; (iii) to reduce the incidence of geological accidents, particularly in settlements in mountainside areas; and (iv) to strengthen the technical capacity of the executing agencies and, in particular, assist municipalities in tackling the problems of unregulated urban development.</p>	

Description: This operation has multiple works to finance improvements in urban infrastructure and delivery of social services in selected settlements in the GCMA. It is comprised of two components:

1. **Integrated projects (US\$42.45 million):** This component will finance in each settlement: (i) a minimum package of works and services, including basic infrastructure (water supply and sanitary sewerage, roads and drainage, street lighting, and protection of dwellings against geological accidents); (ii) social services targeted at vulnerable groups, particularly children and adolescents, and at-risk families; and (iii) activities to support property titling. The works and services to be financed in each settlement will be decided in close consultation with the communities from the outset and throughout execution; and
2. **Program management (US\$3.55 million):** This component will finance technical and managerial assistance for the Program Coordinating Unit (PCU) and the municipalities involved in implementing projects and will include: (i) support for execution; and (ii) monitoring and evaluation.

The Bank's country and sector strategy:

In accordance with one of the main objectives of the Peace Accords signed in 1996, the Government of Guatemala has assigned priority to implementing poverty reduction actions, promoting equity, social welfare, environmental preservation, and participatory processes. The Bank's strategy for Guatemala for the period 2001-2003, as stated in the Country Paper, is in line with the Peace Accords. In this context, its primary objective is to reduce poverty through three strategic lines: (a) promoting sustainable economic growth and competitiveness; (b) supporting equity, social welfare, and development of human capital; and (c) strengthening State modernization and participation by civil society.

The proposed program is consistent with the country and Bank strategy because it will promote equity, by improving the quality of life of the poorest households in the GCMA; social integration, by increasing access to services; prevention and mitigation of environmental degradation, by implementing protection and control activities and works; and civil society involvement in decision-making, by strengthening community organization.

Environmental feasibility:

The study of the environmental aspects was based on environmental assessment reports prepared for the projects in the pilot sample and an analysis of program procedures. These reports made it possible to identify preventive, corrective, mitigation, or compensatory protection

measures to be adopted for the entire program, as well as settlement selection and environmental eligibility criteria for evaluating each project. The program's positive social and environmental impact was also identified and includes: (i) improved sanitary conditions for the population; (ii) reduced risk of landslides and floods; (iii) reduced risk of illnesses and environmental pollution; (iv) reduced risk of landslides; and (v) reduced vulnerability of dwellings and families to geological accidents resulting from their location in high-risk areas. The potential negative impact will be direct, small in scale, local, easy to manage, and for the most part temporary, since it will occur during construction of the works. Environmental technical specifications were developed for each type of work and will be attached to contracts for urbanization plan preparation, design, and construction or supervision of works, to ensure implementation of measures to protect against the direct environmental impact. The program will also design and adopt environmental technical specifications for the operation and maintenance of the works, in keeping with the capacities of the respective operators.

The environmental control procedures adopted by the program will meet the requirements of national regulations and Bank policy. The program will also support the review or, where appropriate, preparation of municipal regulations on land use and urban management plans. Those plans and training municipalities to implement them will be an important step in preventing future land invasions and adverse environmental impacts.

**Gender
Considerations:**

The program will finance training activities to strengthen participation by both women and men throughout the project cycle and enhance their involvement in aspects related to controlling the quality of service delivery and service maintenance. Parents will receive training on topics related to food hygiene and environmental health, basic nutrition, organization of youth clubs, and supervision of childcare and school enrichment programs, among others. The program is also expected to expand employment opportunities for women, by installing childcare centers and school enrichment activities. The program will also have a significant impact on gender equity in the distribution of the economic benefits derived from property titling by ensuring that both partners in a relationship share ownership.

Benefits:

Program interventions will provide approximately 85,000 residents of settlements with access to water supply, sewer and drainage services, access by road, garbage collection, and markets and squares and recreational spaces, inter alia. The program's main benefit is its impact on the living conditions of this population group, which accounts for 13% of the GCMA's poorest residents, who live in spontaneous

settlements. These improvements will have a positive impact on poverty indicators measured in terms of unmet basic needs (UBNs). Another benefit is security of land tenure stemming from property titling and its potential impact on property values. The program will also help to reduce the risks associated with poverty for the most vulnerable families residing in these settlements, particularly children, adolescents, and female heads of household, who are targeted by program activities.

Risks:

The main program risks fall into three categories: (i) cooperation between the central government and the municipalities; (ii) the technical complexity of the program; and (iii) community participation. The work plan involves close collaboration between the central government and the participating municipalities. Because coordination of actions and priorities among different levels of government has been difficult to achieve in some past operations, this could be a risk factor for regular program performance. To mitigate this risk, the SCEP and the municipal governments will sign participation agreements, setting out clearly the roles and responsibilities of each party. Mechanisms for consultation and participation between the beneficiary communities and local governments will be promoted. This will allow for consensus in decision-making and create spaces for the communities to be able to express their opinions and make their needs understood. As to the technical complexity of the program, like all integrated projects, simultaneous execution of several components is an institutional challenge, particularly when the country has little experience with this modality. To minimize this risk, international consultants will be hired to support the PCU with general program management and technical engineering and urbanization considerations. Each municipality, in turn, will receive technical assistance aimed at strengthening its capacity to evaluate and monitor infrastructure projects and social projects.

**Special
contractual
conditions**

As a condition precedent to the first disbursement:

- (a) The Project Coordinating Unit (PCU) must be up and running in accordance with the parameters agreed on with the Bank (paragraph 3.5); and
- (b) The Operating Regulations (OR) must have been put into effect by the SCEP (paragraph 3.14).

Other special conditions:

As a condition precedent to participation in the program, each municipality shall sign a participation agreement with the SCEP (paragraph 3.7); and as a condition precedent to disbursement of funds for the integrated projects component, the corresponding implementation agreement must be signed between the SCEP and the municipality in which the project will be carried out (paragraph 3.8).

The SCEP shall present to the Bank annual reports on the progress made in implementing the program (paragraph 3.29).

Prior to approval of the project profiles in each settlement, the SCEP shall demonstrate that the competent entities have authorized the settlement land titling process to go ahead (table II.4 and paragraph 3.16).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI) (see paragraph 4.32).

Exceptions to Bank policy:

None.

Procurement:

All program procurement will be carried out in accordance with Bank procedures.

Works:

Equal to or greater than US\$1,500,000, international competitive bidding (ICB),

US\$250,000 to US\$1,500,000, local competitive bidding (LCB),
Less than US\$250,000, limited bidding (LB) or direct call for bids.

Goods:

Equal to or greater than US\$250,000, international competitive bidding (ICB),

US\$50,000 to US\$250,000, local competitive bidding (LCB)
Less than US\$50,000, limited bidding (LB) or direct call for bids.

Consulting services:

Equal to or greater than US\$200,000, international competitive bidding (ICB),

US\$40,000 to US\$200,000, local competitive bidding (LCB),
Less than US\$40,000, limited bidding (LB) (paragraph 3.23).

All goods procured and consulting services engaged under the program, including consultants and goods for the municipalities, will be processed by the PCU and contracted by the SCEP. Ad hoc committees of SCEP staff and municipal officials will be formed for that purpose. Such committees will identify and select consultants and firms and award the contracts. See the procurement plan for program goods and services (Annex II).

I. FRAME OF REFERENCE

A. Profile of poverty in Guatemala

- 1.1 Despite some improvements in the last ten years, poverty continues to be one of Guatemala's most serious problems. Sixty-six percent (66%) of the Guatemalan population lives in poverty¹ and 27% of those in extreme poverty.² These figures are particularly high when compared to the other Central American countries and considering that the Guatemalan economy represents one-third of the region's gross domestic product (GDP). Moreover, compared with other countries with similar per capita income (US\$1,660), Guatemala has the highest incidence of poverty.
- 1.2 It is well known that a high percentage of poor persons in relation to the total population of Guatemala are widely scattered in rural areas. Nonetheless, in absolute terms, the number of people living below the poverty line in urban areas is higher than in rural areas and has been on the rise, particularly in the Guatemala City metropolitan area (GCMA), where nearly one-third of the country's total inhabitants reside.

B. The metropolitan area³

- 1.3 With a population of approximately 3.2 million, the GCMA has the highest concentration of poor people in the country in four municipalities: Guatemala, Chinautla, Mexico, and Villanueva. Of those, approximately 640,000 persons live in poverty in 300 urban settlements.
- 1.4 Available data show that from 1991 to 1997 the poor population residing in urban fringe areas in the GCMA rose an average of 5% per year—almost double the national rate. Likewise, from 1994 to 1999, the number of settlements jumped from 139 to 300, which is a 54% increase in just five years. Most of this growth was due to an extraordinary situation caused by damage from Hurricane Mitch that forced many families to move within cities or within the GCMA. This phenomenon resulted in a disproportionate increase in the problems of marginality and poverty in the GCMA, which is manifested in serious gaps in meeting basic needs, legal access to land, the delivery of basic and social services, and environmental conditions, among others. In the absence of government actions aimed at taking a structured approach to this situation, the situation of marginality of these families and its implications on urban quality of life in general are worsening.

¹ Average *income* under US\$2 per day.

² Average income under US\$1 per day.

³ For the purposes of this document, the Guatemala City metropolitan area is understood to include the municipalities of Chinautla, Guatemala, Mixco, and Villanueva.

1. The precariousness of marginal settlements

- 1.5 Mass occupation of marginal lands in the GCMA is a relatively recent phenomenon. Although the first dwellers arrived in the mid-1950s, 80% of the population in the settlements took up residence in the 1990s. Almost all of the land occupied is located on the outskirts of cities, with little or no infrastructure coverage (water supply, sewerage, storm drainage, road infrastructure, garbage collection, and power) or basic social services. The absence of property titles explains, to a great extent, the unplanned growth, high density of the land occupation, and makeshift nature of dwellings built in the settlements.

a. Basic services and infrastructure

- 1.6 **Water supply.** Available information shows that, on average, only 55% of dwellings in settlements in the GCMA are connected to the water distribution network. Most of these connections are illicit and lack sufficient water pressure. Water supply is therefore extremely uncertain. Families who do not have household connections must resort to other alternatives that are often more expensive, but lower quality, such as: public taps (29%) tank trucks, wells, or streams (16%). In some settlements, almost 50% of users obtain water from tank trucks. The cost is US\$6.5 per month, which is 40% higher than the price of water supply in EMPAGUA's *Aguas Precarias* program.⁴ In addition to the cost, water distributed by tank trucks is not subject to any quality controls and is stored in open barrels, which become sources for the spread of waterborne illnesses.
- 1.7 **Sewerage.** There is only 60% coverage of the sewerage network in the GCMA. The system, as a whole, lacks treatment plants; therefore untreated wastewater is discharged directly into surface bodies. Network service does not reach marginal settlements, where only one-third of dwellings have some form of sanitary sewerage (open ditch) which, in all instances, is discharged into nearby ravines or streams. On average, only 50% of dwellings have a toilet or latrine, and only 20% have a septic tank.
- 1.8 **Storm drainage.** In practically all the settlements, rainwater empties directly into the streets or the open ditch in the sanitary sewerage system. The result of the former has been systematic erosion of public roads; the latter has produced permanent sources of pollution and infection. This, aggravated by the failure to maintain existing channels, causes overflows of wastewater. Furthermore, the lack of appropriate channeling of rainwater increases vulnerability to natural disasters in settlements located on steep slopes. The main problems, in these cases, are floods and landslides of unconsolidated slopes.

⁴ *Aguas precarias* provides water service for six to twelve hours per day, through an inter-municipal assistance agreement between the municipalities of Chinautla and Guatemala. EMPAGUA charges a single rate of US\$2.5 per month per household connection, without a meter.

- 1.9 **Road infrastructure.** In general, vehicle access to the settlements is limited due to the irregular layout of the urban fabric resulting from the spontaneous formation of these communities. As a result, the road network does not meet minimum standards, which limits delivery of services, such as public transportation, emergency and security services, and garbage collection. The problem is more acute during the rainy season due to flooding caused by the lack of storm drainage and the precarious construction of public roads.
- 1.10 **Garbage collection.** Waste collection service in the GCMA is provided by private enterprises with 82% coverage. In the settlements, private service covers only 50% of dwellings and is carried out by persons from the communities who throw garbage in the nearest ravine or in illegal dumps.⁵ The remainder of the families resort to burning garbage on their property or in the street, without any type of safety measures (35%) or to disposing of it in illicit dumps (usually vacant land) or ravines (15%). The average cost of this service is US\$2.3 per month.
- 1.11 **Power.** Legal connections to the power system in settlements in the GCMA reflect average coverage of roughly 55%. However, almost all dwellings have service, since the remaining 45% either buys electricity from a neighbor or is illegally connected to the power mains. The uncertainty of these connections not only multiplies inefficiencies in the use of power due to transmission and distribution losses, but also increases the risk of accidents. When service is delivered legally, use is measured through a community meter. Street lighting is extremely deficient or nonexistent in these settlements.

b. Social, economic, and environmental considerations

- 1.12 The age structure of the inhabitants of the settlements indicates that over half of the poor population in the GCMA (55%) are children and adolescents under age 18. Demographic dependency in these households is high, because over two-thirds of that population are children under 12 (see Table I-1).

Table I.1		
Age structure of the population in the settlements		
Range	Population	%
0-6	179,200	28.0
7-11	96,000	15.0
12-17	76,800	12.0
18-40	224,000	35.0
41-65	44,800	7.0
> 66	19,200	3.0
Total	640,000	100.0

⁵ At present, the GCMA has one official dump in Zone 3 of Guatemala City and over 500 illicit dumps.

- 1.13 Roughly one-third of the population in the settlements is of indigenous origin, predominantly from Mayan groups. Interviews conducted during program preparation found an upward trend in those groups in assimilating the customs and values of the rest of the urban population. This is particularly true among young people. Nonetheless, ethnic discrimination remains a problem. In the opinion of the adults, the cost of this assimilation is a loss of identity and of the values and traditions of each culture.
- 1.14 **Education and nutrition.** Regarding schooling of children, available data indicate significant shortcomings, as reflected in high repeater rates (15% to 20%) in the first years of primary school and the significant percentage of children (10%) who do not complete primary school.
- 1.15 Comparisons of schooling by gender in the population over 18 years of age reveal a marked bias against women: only 15.5% of the adult female population completed lower secondary education, compared to 20% of men. This has significant repercussions on children under 6. The low level of education of mothers, together with the scarcity of resources for meeting basic needs, explains the extreme vulnerability to malnutrition of the child population in the settlements. Over one-third of children under 2 are malnourished. Findings from the survey conducted during program preparation indicate blatant ignorance among mothers of how to prepare meals, handle food, ensure a healthy environment and what health and nutrition programs are available locally.
- 1.16 **Violence and social vulnerability.** In addition to problems linked to insufficient income, these populations are subject to different situations of violence, both within the family and in the communities. The phenomenon of criminal gangs has decidedly increased the problem of violence, both in the settlements and in the GCMA in general. Most of these groups, composed of minors and youth of legal age of both genders ("*maras*"), are from the marginal settlements. The causes of their emergence include: (i) the absence of after-school supervision for children and youth; (ii) weak family relations; (iii) insufficient services, such as recreational and sports facilities, transportation, and street lighting, among others; and (iv) the lack of counseling to pursue feasible options in the labor market.
- 1.17 Regarding domestic violence, women and children are most often the victims. According to data from a survey of 800 mothers of children under two, almost 40% identified abuse by their spouse as one of the main problems they face. Families are not very willing to report violence against children, therefore there is no precise information on the magnitude of the problem; however, hospital statistics reveal that the most common forms of child abuse are physical abuse, sexual abuse, and abandonment.⁶

⁶ According to these sources, in 1996, 60% of physical abuse and 55% of abandonment affected boys, while 94% of sexual abuse was suffered by girls.

- 1.18 **Social services and facilities.** In general, families in these settlements do not have childcare services. The absence of daycare centers, programs to support academic development in schoolchildren, and recreational facilities is one of the shortfalls mentioned most often by the population. This reflects both the growing aspiration of women to join the labor market and families' concern for promoting activities to keep young people out of at-risk situations. Development of youth programs ranked third among the social service priorities set by the families.
- 1.19 **Income.** On average, over one-third of workers have an income below US\$64.93 per month. The gender gap in participation in economic life puts female heads of household at a considerable disadvantage. Thus, while 41% of all economically active heads of household have some type of remunerated work, only 30% of female heads of household do. Furthermore, the number of households headed by a woman has been on the rise in the last ten years. Currently, one-fifth of families are headed by women.
- 1.20 **Land tenure.** Most settlements in the GCMA are on public land that could be legalized. Although in 92% of cases the individual lots are not titled, most of the families have begun the formalities to regularize their land by presenting requests to the SCEP Office of Human Settlements and Housing (DAHVI). The Legal Technical Unit for Accreditation of the National Housing Bank (BANVI) is responsible for processing those requests and recording property rights. However, BANVI can designate DAHVI as the entity responsible for coordinating and following up on the respective formalities and the titling process of individual property in the settlements.
- 1.21 **Environmental considerations.** In general, the settlements in the GCMA are located on difficult terrain that, in some cases, is geologically unstable. For this program, only settlements that did not present environmental risks were selected or settlements that posed minor risks that could be mitigated through interventions tailored to the investment cost parameters per family set by the program.

C. Institutional framework

- 1.22 **Secretariat of Executive Coordination of the Office of the President (SCEP).** The SCEP is the central government agency responsible for coordinating execution of all the investments programs in the government plan. To implement its functions, it has two subsecretariats: the Administrative Subsecretariat and the Subsecretariat for Operations. The former deals with financial management and management of administrative services. The latter is responsible for executing investment projects. SCEP has broad experience implementing investment projects, although it has traditionally done so by force account.
- 1.23 The authorities recently appointed have made changes to the SCEP's organizational structure, to enhance efficiency in the performance of its functions. As a first step, they reorganized the Office of Monitoring and Follow-up and the Administrative/Financial Department and created an Internal Audit Unit and

Comptroller's Office. One of the primary objectives of this reorganization was to capitalize on the experience that will be generated by implementing the proposed program, to promote a management model that will make it possible to outsource project execution, *inter alia*.

- 1.24 The Program Coordinating Unit (PCU) created for program execution is consistent with that SCEP priority, in that it will strengthen technical and administrative capacity to execute program projects, in coordination with the municipalities. The PCU, which was established at the beginning of program preparation, has been working with the municipalities to prepare a sample of five projects. This activity, financed through the Project Preparation Facility (PPF/014-GU), has enabled the PCU and the municipalities to gain the necessary experience and identify the technical and institutional strengths and weaknesses of the different actors and entities involved in the program.
- 1.25 **The municipalities.** There are marked differences in institutional development and administrative and service delivery capacity between the Municipality of Guatemala City and the municipalities of Chinautla and Villanueva. The former has competent technical personnel capable of assuming responsibility for promoting the enrichment and social action projects in the program. It also has experience, albeit limited, with community or outsourced management of social action. However, institutional capacity in Chinautla and Villanueva is incipient.

D. Bank experience

- 1.26 The Bank has nearly 20 years experience executing integrated neighborhood improvement programs. It began in the 1980s, with the first such programs in Chile and continued almost uninterrupted in Colombia, Brazil, Argentina, and Bolivia. Initially, these programs focused on improving health conditions and regularizing land tenure for residents of shantytowns. The strategy of the most recent operations has been aimed at taking a comprehensive approach to problems affecting poor households in urban centers as the most executive way to enhance their quality of life.
- 1.27 Regarding operations directed at housing needs in Guatemala, the Bank financed the Housing Program (1048/OC-GU), which is almost complete. Its objectives were to enhance equity and efficiency in housing markets, while increasing the level of investment in low-income housing. Given the nature of the program, the population served was predominantly low- and middle-income families with some savings capacity. The poorest sectors were served through sites and services solutions. Program subsidies were quickly used, either by contractors offering lots with services or by families to improve their dwellings. The proposed program is consistent with and supplements this operation, by extending the reach of the country's housing policy. With the same concern for improving housing conditions, investments will be made targeting low-income sectors that were not covered by the aforementioned program, by improving urban infrastructure where this population resides. This will be complemented by the regularization of its property.

- 1.28 The most recent experience with operations involving municipalities is the Municipal Development Program (1217/OC-GU). That program is aimed at improving the administration and management capacity of local governments, with a view to promoting and supporting decentralization. The operation was approved in 1999, but execution has not begun because of problems in fulfilling the technical conditions for implementing the program. According to the design, municipalities receive credits from the Institute for Municipal Development (INFOM) to make the infrastructure investments that are in demand. Like that operation, the proposed program involves the participation of three municipalities in the GCMA in all phases of the project cycle. However, given the characteristics of a program directed at improving the living conditions of the poorest urban families, the resources are handled as entitlements. Like other Bank municipal programs, this operation establishes a central mechanism to technically guide the use of funds and oversee their investment. To achieve installed capacity for autonomous execution of neighborhood improvement programs and other similar urban interventions, the municipalities are involved in project execution and are given technical support (for project evaluation and monitoring, bidding, supervision of works, delivery of social services, etc.).

E. Lessons learned and program strategy

- 1.29 Bank experience in recent years in Guatemala and with neighborhood improvement programs in other countries has enabled it to identify the following lessons, among others:
- (i) Programs conducted in poor communities must assign priority to community involvement in decision-making to ensure the sustainability and continuity of the benefits in the long term.
 - (ii) Integrated, multisector interventions targeting shantytowns are one of the best options for achieving, in the short term, effective, lasting results in alleviating urban poverty.
 - (iii) Integrated implementation of works under a single responsible agent ensures efficient coordination of the different physical investment projects.
 - (iv) Monitoring of outcomes is essential for an effective impact assessment and must be incorporated from the outset in each program intervention.
- 1.30 These and other operating principles have been incorporated into the design of this operation.

F. Country and Bank strategy in the sector

- 1.31 Since the mid-1990s, Guatemala has made outstanding progress in different areas of economic and social policy; the Peace Accords were signed and notable progress was made in democracy building and national reconciliation.
- 1.32 In fulfillment of one of the main objectives of the Peace Accords signed in 1996, the Government of Guatemala has assigned priority to implementation of poverty reduction activities. To that end, with Bank support, the government is preparing the Poverty Reduction Strategy (PRS), based on four pillars: (i) achieving sustainable, equitable development; (ii) social integration and welfare; (iii) sound stewardship of the environment; and (iv) modernization of the State and strengthening of civil society.
- 1.33 In parallel with these objectives, the proposed program will promote: (i) equity, by improving the quality of life of the poorest households in the GCMA; (ii) economic and social integration, by increasing access to services and job opportunities; (iii) control of environmental degradation, by implementing protection and control works and activities; and (iv) civil society involvement in decision-making, by strengthening community organization.
- 1.34 The Bank strategy for Guatemala for 2001-2003, as stated in the Country Paper, is in line with the Peace Accords. In that framework, poverty reduction is its primary objective. To that end, the Bank will focus its efforts on three strategic lines: (i) promoting sustainable economic growth and competitiveness; (ii) supporting the equity, social welfare, and development of human capital; and (iii) strengthening State modernization and governance. This is not only the first program that will be implemented in the urban sector in Guatemala, but it is also consistent with this strategy, particularly as an instrument for reducing socio-economic disparities and more effectively targeting social spending.

II. THE PROGRAM

A. General objective

- 2.1 The general objective of the program is to help reduce poverty in the Guatemala City metropolitan area (GCMA), by improving the living conditions of inhabitants of urban shantytowns in the municipalities of Guatemala, Chinautla, and Villanueva.

B. Specific objectives

- 2.2 The specific objectives are to: (i) offer access to basic infrastructure and sanitation services to approximately 85,000 inhabitants of 32 shantytowns in the GCMA; (ii) provide social services to protect at-risk groups in that population; (iii) reduce the incidence of geological accidents, particularly in settlements in mountainside areas; and (iv) strengthen the technical capacity of the executing agencies and, in particular, support municipalities in tackling the problems of informal urbanization.
- 2.3 The program goals are found in the logical framework. Table II.1 summarizes, as an example, some of the most important indicators of evaluability.

Table II-1
Selected Evaluability Indicators

At the end of the program, the following will be achieved:

- 85,000 persons in the GCMA will no longer live in poverty (measured in terms of UBNs).
- The health conditions of 100% of residents in the beneficiary settlements will be improved (those households will have access to water supply, sanitation, and garbage collection services.).
- 100% of the beneficiary settlements will be accessible and passable at all times.
- Accidents caused by flooding and landslides in program settlements will drop 90%.
- Children in program daycare facilities will show improvements in their health and general nutrition.
- Academic performance will rise 30% among children who receive school enrichment services (approximately 3,200 children).
- 100% of beneficiary families (approximately 14,000) will receive counseling on nutrition, hygiene, and child rearing practices at home.

C. Program description and components

- 2.4 The program operation has multiple works to finance improvements in urban infrastructure and delivery of social services in selected settlements in the GCMA. The operation is comprised of two components: (i) financing of integrated projects; and (ii) program management. Program implementation seeks to provide each

settlement with a minimum package of basic infrastructure works and services, including water supply, sanitary sewerage, roads, street lighting, and protecting dwellings against geological accidents. In addition, there are social services targeted at vulnerable groups, particularly children and adolescents, and at-risk families and activities to support property titling. Implementation of these activities will be preceded and accompanied by institutional strengthening and community development activities. The former will be aimed at supporting the executing entities in administering, executing, and overseeing physical works and the delivery of social services. Community development will support the organization of communities and health and environmental education, to enable them to maintain and, where appropriate, operate the services introduced by the program. Decisions related to the installation of the works and services to be financed in each settlement, their location, modes of operation, resettlement, etc. will be reached in close consultation with the communities. This community participation process will be developed and used as a driving force for the installation of all the social and infrastructure interventions financed by the program. At no time will the cost of the interventions exceed US\$3,150 per lot (including all the investments and project preparation activities outlined in Chapter IV). The activities that can be financed are listed in the Table II-2.

Table II.2 Menu of Interventions	
Community participation	Organization, consultation, and community management Health and environmental education Regularization of property
Urban services and infrastructure	Water supply Sanitation solutions Storm drainage Street lighting Power Plazas and green spaces Collection of solid waste
Social services	School enrichment Daycare centers Integral support for families Multiuse community rooms/halls

1. Integrated projects (US\$42.45 million)

- 2.5 This component will finance integrated interventions for improvements in each of the selected settlements. The actions to be financed in implementing each project in a community could include:

- 2.6 **Project preparation and oversight (US\$2.8 million).** In all cases, before project implementation, specialized consulting firms will be hired to provide urban intervention plans, with the corresponding engineering and architecture drafts. City planning, soil, topographic, environmental impact, socio-economic, and other studies needed for proper planning of the activities in each settlement will be financed. Urban design and alternative solutions for designing sanitation services will be discussed and agreed to with the beneficiaries from the outset. To that end, sustainable management models will be installed that are shared by the community, local government, and the central government. This process will produce the subdivision plans needed to regularize property and the final project designs approved by the corresponding sectoral entities before the works are contracted.
- 2.7 **Community participation (US\$2.6 million).** Program execution will be heavily based on community participation activities that will be implemented continuously from project preparation to the post-works phase. Educational and mobilizing actions will be financed to ensure community involvement in planning, defining and implementing projects, and operating the services. The methodology adopted contains four phases: (i) program dissemination and community preparation; (ii) discussion and consensus on infrastructure and equipment designs, service management modalities, and the respective responsibilities to be assumed regarding financial costs or participation in services; (iii) monitoring of works and implementation of services; and (iv) consolidation of the systems and services introduced (especially water supply and sanitation). The latter will be done by implementing health and environmental education campaigns, forming the community organization responsible for its operation, and establishing household connections.
- 2.8 Specialized consulting firms will be hired for all these activities and must ensure that they are representative of all sectors and groups involved in the decision-making process. To that end, the particular characteristics of each family and the community will be taken into consideration, including ethnic, cultural, and gender considerations, promoting the recognition of and respect for Guatemalan cultural diversity. This subcomponent will also support individual and community management for processing requests to regularize property.
- 2.9 **Integrated urbanization (US\$24.7 million).** This will finance works and services to improve the infrastructure, facilities, and urban services in the beneficiary settlements. The goal is to provide a minimum package of infrastructure to beneficiary families; to that end, the following will be financed: (i) **basic sanitation.** Construction or improvement of water supply systems with household connections, consisting of small intake works and pumping stations, including micromeasuring in the networks; sanitary drainage works (local solutions or connection to nearby existing networks, when possible) including collection, transport, treatment, and final disposal of wastewater, while preserving environmental quality; and solid waste collection services (including garbage containers and silos, civil works for composting, handcarts and tools for local garbage collection systems, collection plan, collection points, and transport plan);

- (ii) **road infrastructure.** Improving and paving vehicle and pedestrian streets, curbs, shoulders, steps, sidewalks, and storm drainage; (iii) **power and street lighting.** Extension of distribution networks and connections to urban networks and substations, installation of poles, cable, transformers, and lights; (iv) **environmental protection, prevention of natural risks, and resettlement.** Stabilization of slopes, construction of retention walls, tree planting and reforestation, and compensation for families or construction of basic housing for resettlement; and (v) **regularization of property.** All the selected settlements are located on public land that could be legalized within the urban perimeter defined by the respective municipalities. Legal and technical advisory services for the families to complete titling procedures for individual properties will be financed.
- 2.10 **Social services and facilities (US\$12.35 million).** Social service delivery projects will be financed in settlements eligible for the program and will include construction, reconditioning, and reparation of buildings and facilities and the necessary equipment for them to function properly. These services will be prioritized by the communities themselves and include: (i) *preschool care* (daycare centers); (ii) *school enrichment* for children ages 7 to 14; and (iii) *integral assistance for families*.
- 2.11 **Preschool care.** This project will finance community daycare centers for children ages 0 to 6 in community halls. The services will be contracted with specialized civil society organizations (CSOs) and nongovernmental organizations (NGOs)⁷; in addition to full-time day care, there will be activities aimed at meeting the health, nutrition, and comprehensive development needs of children, including the dissemination of ethnic and cultural values.
- 2.12 The municipalities will be responsible for the general administration of the daycare centers. The program will finance the operating cost of the centers on a declining basis for a maximum of two years (depending on the construction date). Once this period is over, the municipalities and the community must assume these expenses. During installation of these services, special efforts will be made to incorporate associations and individuals from the communities in administering and financing the daycare centers.
- 2.13 **School enrichment.** This project is aimed at, essentially, supporting boys and girls ages 7 to 14 in school activities, to improve their academic performance. It also includes recreational programs and dissemination and awareness-raising programs on ethnic and cultural diversity in Guatemala. The school activities will include support for children to do their homework, tutoring in areas such as mathematics, grammar, science and others, and recreational activities. The menu of intercultural activities will include: instruction based on multicultural criteria and dissemination

⁷ During program preparation, an inventory was prepared of active organizations with experience in social services and caring for vulnerable groups, including women, children, ethnic groups, etc. Over 70 NGOs were identified in such areas as preventive health care, nutrition, preschool and school assistance, education, and training for youth.

of artistic expression, customs, and traditions. The program will provide the space for these activities, either in community centers or by expanding/reconditioning school facilities. Administration of the service must be coordinated with the schools to ensure that the academic enrichment programs meet the Ministry of Education's curriculum requirements. CSOs or NGOs will be hired to provide the services, which will be financed with program resources on a declining basis. As the services are introduced, every effort will be made to involve associations and individuals from the communities themselves in administering and financing the services.

- 2.14 **Integral support for families.** The program will finance care services for families at particular risk, including counseling on: preventing accidents in the home, nutrition, hygiene, preventing domestic violence, etc. The specific needs will be determined in the appraisals conducted at the beginning of each project. The CSOs or NGOs hired for specific periods will provide the services. Financing will also be provided for actions to support residents in the settlements, to facilitate their access to existing adult literacy, job training and placement, and preventive health programs. This activity will place particular emphasis on incorporating the indigenous population in job training and placement activities.

2. Program management (US\$3.55 million)

- 2.15 To ensure adequate execution, technical and managerial assistance will be provided to the Program Coordinating Unit (PCU) and the municipalities and will include:
- 2.16 **Support for execution.** Long-term consulting services will be financed to support the PCU in the following areas: technical analysis of engineering studies and projects; oversight of infrastructure works, design, and monitoring of social actions; community participation; environmental analysis; oversight of bidding and contracting processes; and support for technical, financial, and administrative management of the program. International consultants will be hired to assist the PCU with these activities and with program management. Each municipality, in turn, will receive technical assistance to strengthen management capacity for neighborhood improvement programs. Two specialists will be hired per municipality to support them during the program execution period. These consultants will provide support and training on evaluating and monitoring infrastructure projects, social projects, bidding and procurement processes, and supervising works and services.

- 2.17 **Monitoring and evaluation.** This will finance the impact assessment for program interventions on quality of life, including improvements in the physical, social, and environmental

Table II-3
Program evaluation phases

Baseline. Evaluation of the environmental and socio-economic characteristics of the selected settlement.

Moment 2. Environmental appraisal of the settlement and of the living conditions of the beneficiaries eight months after completion of the integrated projects in the settlement.

Moment 3. Assessment of the impact of the integrated projects on the environment in the settlement and on the quality of life of the families in the settlement, six months after completion of the works.

conditions of families residing in the beneficiary settlements. The program impact assessment on the quality of life of families seeks to conduct a comparative analysis of their situation before and at the end of program execution, considering indicators of evaluability, such as increased use of different urban and social services introduced in the settlements; improvements to the accessibility of the neighborhoods; reductions in environmental accidents; stronger participation by both women and men in program management; the impact on gender equity in the distribution of the economic benefits stemming from joint titling of property; and the increase in the academic performance of children who attend the school enrichment project, among others (see the program logical framework). An independent external firm will perform the monitoring and impact assessment of program interventions, in keeping with the outline in Table II-3.

- 2.18 The aspects of the program that will be analyzed are set forth in the logical framework. To that end, there is a baseline for the settlements in the sample, the results of which will be projected for all 32 settlements selected. Throughout program execution, baselines will be devised for each settlement based on the city planning and socio-economic studies conducted prior to each intervention. Likewise, there will be data that are not currently available (such as nutritional profiles of children under 6 in the settlements) as the social services that will generate that information begin to operate. The baseline information will be used as a reference to measure program progress and the changes made as a result of the program, both in the short and long terms.

3. Other program costs

- 2.19 **Financial and operating audit.** The annual program audit will be financed and will be performed by a firm of independent public accountants acceptable to the Bank, in keeping with the terms of reference agreed to with the Bank (see paragraphs 3.34 to 3.37). An annual program evaluation will also be financed that will be performed by an independent consultant (see paragraph 3.29).

D. Selection of settlements and eligibility criteria

- 2.20 **Selection of settlements.** The beneficiary settlements were selected based on an initial pre-identification based on data provided by municipalities eligible for the program. That list included makeshift settlements in the urban area of Chinautla, Guatemala City, and Villanueva and was obtained by the municipalities through a household survey. For that, a sheet of basic information was prepared on: income, sanitation systems, accessibility (in relation to the current road system), and the legal status of the land.
- 2.21 A total of 105 settlements in four municipalities were pre-identified, and the eligibility criteria in Table II-4 were applied.

Table II-4 Eligibility Criteria	
a. Socioeconomic/degree of consolidation	<ul style="list-style-type: none"> i. The majority of the households have monthly family income below US\$150. ii. At least 75% of the dwellings lack sanitary sewerage solutions. iii. The settlement has a minimum of 150 lots.
b. Technical feasibility	<ul style="list-style-type: none"> i. The settlement is located near water supply, sewerage, and power networks or, if not, there is a possible specific solution for water and sewerage with appropriate costs. ii. There is road access or it would be feasible to develop a road to connect the settlement to the nearby urban area at costs compatible with the program's investment limits.
c. Legal and city planning	<ul style="list-style-type: none"> i. The settlement is not located on: (1) private property or property in dispute; (2) public utilities, reserves, areas for the preservation of natural resources, or archeological areas. ii. The settlement is part of the urban plan or master plan for the respective municipality, and the competent entities have authorized proceeding with the legalization of the land.
d. Environmental	<ul style="list-style-type: none"> i. The settlement is not located in critical natural risk areas (landslides, floods, etc.) or, if it is vulnerable to such risks, the cost of mitigating or correcting the problem is consistent with program investment limits. ii. The settlement is not located in areas with incompatible uses, such as archeological areas, ecological or forest reserves, and areas of cultural preservation.

2.22 As a result of this pre-eligibility exercise, approximately 80 settlements qualified; the criteria in Table II-5

were applied to those settlements. These

criteria seek to prioritize the settlements that are the most socially, environmentally, and economically feasible.

The criteria are:

(i) accessibility of the site; (ii) availability of services, assigning priority to settlements without sewerage connections or with makeshift solutions; (iii) the cost of mitigating the environmental risks, prioritizing settlements

where mitigation costs are lower; (iv) degree of slope, assigning greater priority to

Table II-5 Rating Methodology

Variable	Criterion	Rating
Accessibility	Good accessibility	3
	Average accessibility	2
	No accessibility	1
Sanitation services	No services	3
	Some services	2
	Most services	1
Investment to mitigate the risk	< US\$30,000	3
	US\$30,000 < Investment < \$80,000	2
	> US\$80,000	1
Degree of slope	< 30% of the area up to a 20% slope	3
	<30 > 60% of the area with slope >20 < 40%	2
	> 60% of the area with slopes > 40%	1
Number of families	> 500 families	3
	150 < No. of families > 500	2
	< 150 families	1

settlements on gentler slopes; and (v) the number of families, giving a higher rating to settlements with a larger population, based on the economies of scale provided by the projects.

- 2.23 After applying these criteria, the list was reduced to those settlements that met the technical eligibility criteria and had the highest ratings in each municipality.⁸ Bearing in mind the available investment funds in the program and considering a total investment cost of US\$3,150 per family, it was verified that up to 32 settlements from the list of priority settlements could be financed. Another 15 were added that could replace those on the initial list if, for technical, operating, or other clearly justifiable reasons, they could not be executed. The lists include the program Operating Regulations.
- 2.24 Bearing in mind settlements whose geographic proximity to each other justifies the design of joint solutions—to maximize the investments in preparing urban plans and in the road system, sewerage treatment systems, solid waste solutions, etc.—an execution plan was prepared that includes contracting the combined design and execution of the projects (see Table III-2).

E. Cost and financing

- 2.25 This operation has multiple works, with a total cost equivalent to US\$52 million, of which the Bank will finance US\$46.8 million. The Government of Guatemala will make the national counterpart contribution equivalent to US\$5.2 million. Table II-6 presents the cost structure.

⁸ Because of these criteria, settlements in the municipality of Mixto were excluded.

Table II-6 Table of program costs (in millions of US\$)				
Categories	IDB/OC	Local	Total	%
1. Integrated projects	38.50	3.95	42.45	81.6
1.1 Project preparation and oversight	2.80		2.80	
1.2 Community participation	2.60		2.60	
1.3 Integrated urbanization	22.10	2.60	24.70	
1.4 Social services and facilities	11.00	1.35	12.35	
2. Program management	3.10	0.45	3.55	6.8
2.1 Support for execution	1.30	0.45	1.75	
2.2 Control and management system	1.50		1.50	
2.3 Monitoring and evaluation	0.30		0.30	
Subtotal of components	41.60	4.40	46.00	88.5
3. Other program costs	0.63		0.63	1.2
3.1 External audits/annual reviews	0.16		0.16	
3.2 Repayment of the PPF	0.47		0.47	
4. Financing charges	4.57	0.80	5.37	10.3
4.1 Interest	4.10		4.10	
4.2 Credit fee		0.80	0.80	
4.3 Inspection and supervision	0.47		0.47	
Total	46.80	5.20	52.00	100.0
Percentage	90%	10%		

F. Terms of the financing

2.26 Bank lending for the program will have the following terms:

Table II-7 Terms of financing	
Amortization period:	25 years
Grace period:	4.5 years
Period for start up of works:	4 years
Disbursement period:	4.5 years maximum 3 years minimum
Interest rate:	Variable
Inspection and supervision fee:	1%
Credit fee:	0.75%

III. ORGANIZATION AND ADMINISTRATION

A. Borrower and executing agency

- 3.1 The borrower will be the Republic of Guatemala. The program executing agency will be the Secretariat of Executive Coordination of the Office of the President of the Republic (SCEP), a ministerial-level organ.

B. Institutional framework

- 3.2 The program structure includes: the SCEP; the Program Coordinating Unit (PEU); the municipalities of Guatemala, Villanueva, and Chinautla; the public and social service delivery agencies; community associations in the selected settlements; consulting firms; construction enterprises, and civil society organizations (CSOs).

1. Secretariat of Executive Coordination of the Office of the President of the Republic (SCEP)

- 3.3 The SCEP will be accountable to the Bank for program execution and will be responsible for strategic and intersectoral coordination of the program. Specific program activities will be executed through the Program Coordinating Unit (PCU). That unit is under the authority of the Subsecretariat for Operations of the SCEP and will be responsible for: (i) operational planning; (ii) supervision, quality control, and monitoring execution of specific projects; (iii) administration of financial resources; (iv) management of the procurement of goods and services for the program; (v) oversight of compliance with contractual conditions; (vi) submitting disbursement requests to the Bank; and (vii) preparation and timely presentation of reports to the Bank.
- 3.4 In implementing these functions, the PCU will receive support from an international consulting firm with the following responsibilities, to: (i) design, install, and operate the information, control, and physical and financial monitoring system for the program; (ii) perform quality control in the following processes: project preparation, procurement of goods and related services, and physical and financial execution of projects; (iii) ensure compliance with the agreements and contracts signed between the PCU and the municipalities and other actors involved in executing the projects; and (iv) verify that disbursement requests meet Bank requirements.
- 3.5 The PCU will be composed of: (i) one coordinator; (ii) one specialist in evaluating engineering projects; (iii) one specialist in evaluating social projects; (iv) one community development specialist; (v) one procurement specialist; (vi) one accountant; (vii) two accounting assistants; (viii) one environmental advisor (half-time); (ix) one legal advisor (half-time); (x) one information technology specialist;

and (xi) support staff. **The establishment of the PCU will be a condition precedent to the first disbursement.**

2. Municipalities

- 3.6 The municipalities of Guatemala, Villanueva, and Chinautla will participate in the program. Their responsibilities include: (i) preparing project profiles and presenting them to the PCU; (ii) participating on the committees to select consulting services to formulate projects, supervise works, and supply goods and services; (iii) participating in oversight, monitoring, and supervision of execution of works and social actions; (iv) making contributions in kind and in cash, with additional contributions from the community, equivalent to at least 10% of the cost of the project; (v) selecting new settlements in their jurisdictions; and (vi) running the infrastructure services and maintaining works.
- 3.7 Each municipality will sign a framework agreement for participation with the SCEP, through the PCU, that will establish their mutual responsibilities in relation to general program execution, including participation by municipal representatives on the procurement committees and in supervising project execution. **The signature of this agreement will be a condition precedent to participation by the municipality in the program.**
- 3.8 Each of the three municipalities will sign an execution agreement with the SCEP, through the PCU, for each specific integrated project corresponding to one settlement. Those agreements will set forth the respective obligations of the PCU and the municipalities for executing the specific project approved, as well as the corresponding obligations for operating and maintaining the resulting services. The agreements must contain, *inter alia*: (i) a brief project description; (ii) the amounts to be financed with loan and the local counterpart; (iii) the contribution by municipal entity; (iv) the investment schedule; and (v) the name of the entity that will be responsible for running and maintaining the works and services. **The signature of an execution agreement with the SCEP will be a condition precedent to the disbursement of resources from the integrated project component for each municipality.**
- 3.9 To support the municipalities in this work, the program provides technical assistance by forming teams composed of one engineer and one social worker in each municipality.

3. Other participating entities

- 3.10 **The communities.** Through a participatory process, the communities will be involved in: (i) identifying, prioritizing, and executing integrated projects, for which they will receive technical assistance and training; (ii) prioritizing intervention proposals in their settlements; (iii) monitoring execution of integrated projects; (iv) transactions to regularize property; (v) identifying CSO service

providers; (vi) administering, operating, and maintaining community water systems, including collection of charges; and (vii) supporting delivery of social services in their communities.

- 3.11 **Regulatory agencies** will (i) verify compliance with sector standards for each project; (ii) approve the engineering designs; (iii) support technical supervision during execution; and (iv) head up or delegate the operation and maintenance of the resulting services.
- 3.12 **Consulting firms, construction enterprises, and CSOs** will be responsible for executing all the social actions, works, and studies. From the outset, CSOs will also support the communities and municipalities in: (i) drafting project profiles; (ii) monitoring execution; (iii) administering daycare centers, when appropriate, and school enrichment and supplemental activities; and (iv) delivering other services to generate and improve income.

C. Execution plan

- 3.13 The period for start up of the works will be four years and the disbursement period, four and a half years.

1. Operating Regulations

- 3.14 Execution will be governed by the program Operating Regulations, which will establish the terms and conditions for the program and contains: (i) the program's socio-economic, technical feasibility, legal, city planning, and environmental eligibility criteria for settlements; (ii) a description of eligible projects and activities; (iii) the technical, financial, socio-economic, legal, and environmental eligibility and project evaluation criteria; (iv) the terms of the financing; (v) the procedures for the program operating mechanism; (vi) the oversight and monitoring systems; and (vii) responsibilities for administration, operation, and maintenance of program works and services. **The SCEP must put into force the program Operating Regulations as a condition precedent to the first disbursement of loan funds.**

2. Project cycle

- 3.15 **Pre-investment.** Program execution begins by having the communities identify and prioritize the activities to be executed in the settlements.
- 3.16 **Formulation of preliminary projects.** Based on the priorities identified by the communities, the municipalities with the help of the technical experts assigned to the program will develop profiles for infrastructure and social projects. They will include an estimate for the investment plan, in keeping with the guide adopted for that purpose. The profile is presented to the PCU for approval, proving that: (i) the settlement meets the eligibility criteria set forth in the Operating Regulations; and (ii) the community supports and has pledged to participate in the project. The PCU

- checks if the project is consistent with the order of priorities of the pre-selected settlements and analyzes and approves the profile. **Before project profiles are approved in each settlement, the SCEP must present evidence that the competent entities have authorized proceeding with the legalization of the land in the settlement.**
- 3.17 After the profile is approved, the PCU, together with the municipality, will draft the terms of reference for contracting the integral design of the project. The PCU, with the involvement of the corresponding municipality, will select and hire the firm.
- 3.18 The firms and CSOs hired will: (i) publicize the project in the selected area; (ii) prepare the preliminary project with technical options for physical infrastructure activities, including the planimetric survey, and social services; (iii) calculate costs; (iv) check the legal status of the land; and (v) implement the technical, economic, environmental, institutional, and financial feasibility study, which will include project engineering, the investment plan, costs, the schedule of interventions, and the financing arrangement.
- 3.19 **Design.** The preliminary project is presented to the corresponding municipality for review and approval. Once approved, it is presented to the PCU, which: (i) verifies that it meets program eligibility requirements and criteria; (ii) examines the technical options proposed and the option selected; (iii) approves the preliminary project; and (iv) authorizes preparation of the project.
- 3.20 The project must be accompanied by drafts of the bidding forms to be presented to the PCU for review. The PCU transmits them to the Bank for its no objection. With the Bank's no objection, the PCU signs the execution agreements with the corresponding municipality and engages in the corresponding bidding.
- 3.21 **Execution of works.** For execution of the works, the PCU will form a procurement committee with representatives of the respective municipality and the SCEP. That committee conducts the bidding and awards construction of the works to the winning firm. The PCU signs the contract after obtaining the Bank's nonobjection. The works will be put out to tender so that a single contractor, acting alone or with other companies, can carry out the road, sanitation, environmental, electrical, and construction works. The contracts will contain environmental conditions that need to be fulfilled by the contractor in accordance with the designs specifications and the national standards issued by the Ministry of Environment and Natural Resources.
- 3.22 **Execution of social actions.** While infrastructure works and buildings are being executed, the PCU, the municipality, and community representatives will prepare the terms of reference for engaging social services. With those terms of reference, the PCU invites pre-qualified CSOs and private entities to present proposals for preschool care services, school enrichment and follow-up, and training for families on preventing accidents in the home, nutrition, hygiene, preventing domestic

violence, etc. To evaluate the proposals, the PCU will form a committee composed of community, municipality, and SCEP representatives. It will evaluate the proposals and award the contract, following the no objection of the Bank. The service provider and the corresponding municipality will sign the contract. The municipality's social specialist will supervise the services provided and present a monthly follow-up report to the PCU, for the corresponding payments. Those payments will be made as stipulated in the respective contract and in the Operating Regulations.

D. Procurements of works, goods, and consulting services

- 3.23 The procedures established in Bank procurement policies will be used for program procurements; the amounts governing the different procurements are as follows:

Table III.1		
Procedures and procurement limits		
Procurement	Amount	Procedure to be applied
Construction of works	Equal to or greater than US\$1,500,000	ICB
	US\$250,000 to US\$1,500,000	LCB
	Less than US\$250,000	LB or direct call for bids
Procurement of goods	Equal to or greater than US\$250,000	ICB
	US\$50,000 to US\$250,000	LCB
	Less than US\$50,000	LB or direct call for bids
Hiring consulting services	Equal to or greater than US\$250,000	ICB
	US\$40,000 to US\$250,000	LCB
	Less than US\$40,000	LB

- 3.24 All procurements of goods and hiring of consulting services for the program, including consultants and goods for the municipalities, will be processed and contracted by the PCU. Ad hoc committees will be formed for that purpose, composed of SCEP staff and municipal officials. Those committees will identify and select consultants and firms and award the contracts. See the procurement plan for program goods and services (Annex II).

E. Execution plan and disbursements

- 3.25 It is recommended that a revolving fund equivalent to 5% of the total loan amount be made available to the executing agency. Loan and local counterpart funds will be deposited in a special account in the Bank of Guatemala then transferred to a PCU account in local currency, according to the Unit's needs and, for the second and subsequent disbursements, based on accountability of the revolving fund. The PCU, in turn, will directly pay the goods and service providers hired, based on the supervision and oversight reports.

3.26 The program will be executed in keeping with the following work plan:

Table III.2 Execution Plan								
Settlement	Year 1		Year 2		Year 3		Year 4	
	I	II	I	II	I	II	I	II
1. El Cerrito (2 sectors)	P	P	E	E	E			
2. Cerritos (7 sectors)	P	P	E	E	E			
3. Finca El Zarzal (7 sect)		P	P		E	E	E	E
4. Las Torres		E	E					
5. Zona 18 (3 sectors)		E	E	E				
6. Finca San Julián		E	E					
7. Colina de Villa Nueva		E	E	E				
8. Zona 21 (3 sectors)			P	P		E	E	E
9. Santa Faz (7 sectors)				P	P	E	E	E

Preparation	P
Execution	E

3.27 The disbursement schedule will be as follows:

Table III.3 Disbursement schedule (in percentages)					
COMPONENTS	Year 1 (%)	Year 2 (%)	Year 3 (%)	Year 4 (%)	Total
Integrated projects	8	24	35	33	100
Management and other costs	29	31	23	16	100
PPF	100	-	-	-	100
Financial costs	10	20	27	43	100
Total	11	24	33	32	100

F. Monitoring and evaluation

3.28 **Semi-annual progress reports.** The borrower, through the SCEP, will present a progress report on program execution to the Bank within the first 60 days of each six-month period. It must indicate: (i) the actions and activities fulfilled; (ii) the outcomes achieved and goals fulfilled; and (iii) the main limitations encountered and solutions proposed to overcome them. The report will indicate the resources used per component, in relation to the programmed amounts, and the updated cash flow projection. The report format will be agreed to in advance with the Bank.

- 3.29 **Reviews and annual operating plans.** Consulting services will be financed to prepare annual reports on program progress regarding both inputs and outcomes. For inputs, they will report on implementation of the Operating Regulations, the pace of project installation, and community participation in projects, among other aspects. Regarding outcomes, they will report on the quality of project execution, implementation of community participation activities, execution of special services, potential problems during execution, and other aspects. The consulting services will establish progress indicators that will be used to gauge the pertinent changes after program execution begins.
- 3.30 Within the first quarter of each year, program reviews will be conducted, based on the semi-annual reports, in which the executing agency and Bank will examine program progress. The reviews will be used to decide on the annual operating plan, in which activities and goals to be met in the following year will be modified, and plans for the program through its conclusion will be set. The PCU will prepare those plans together with the participating municipalities.
- 3.31 **Final evaluation.** The SCEP will perform the final program evaluation and will analyze such aspects as the specific short-term outcomes achieved, the extent to which program objectives have been attained, and the changes noted in UBN indicators. The monitoring system put in place will generate the necessary data. The evaluation will cover the completion of activities and will be performed with loan resources six months after completion of the works.
- 3.32 **Ex post evaluation.** The borrower has indicated that it will not be carrying out an ex post evaluation of the program. However, the Bank may perform, if it sees fit, an ex post evaluation of its own for which the borrower undertakes to make available all information generated by the monitoring system and the annual and final evaluations of the program.
- 3.33 **Bank monitoring.** The Bank Country Office in Guatemala will supervise the program; it will conduct an ex ante review of technical and financial aspects of a random sample of projects during execution. Particular attention will be paid to compliance with the conditions set in the Operating Regulations for project preparation and execution.

G. Accounting and external audit

- 3.34 The PCU will be responsible for the accounting and financial management of program resources. It will keep differentiated records of lending and local counterpart funds, through an integrated system that will simultaneously process the information according to the program chart of accounts and the public sector nomenclature in the country. The system will ensure that records are kept in accordance with generally accepted principles and will establish internal control methods to guarantee compliance with program operating standards. The

accounting and audit procedures will be consistent with Bank policies (AF100 and AF300).

- 3.35 Program funds will be used to hire a firm of public accountants acceptable to the Bank, in keeping with the terms of reference agreed to with the Bank, to conduct the annual program audit, which will include two reports: (1) one semi-annual interim report, to be presented 30 days after the close of each six month period in the calendar year, containing: (i) the status and use of resources in the revolving fund; (ii) an examination of a sample of disbursement requests; and (iii) an examination of a sample of documents related to the procurement and contracting of works, goods, and services; and (2) the annual audited report to be presented 120 days after the end of the fiscal year of the executing agency.
- 3.36 The annual audit will include the following, *inter alia*: (i) an evaluation of the program's accounting and internal control system; (ii) an evaluation of compliance with the terms and conditions set in the loan contract, the program operating manual, and the agreements signed with the co-executing agencies; (iii) an examination of a sample of documents related to procurement and contracting of works, goods, and services; (iv) an ex post evaluation of the documents supporting disbursement requests; (v) inspection visits to a sample of projects financed with program resources; and (vi) an examination of the semi-annual reports on the status and use of resources in the revolving fund.
- 3.37 In relation to the provisions of Article 7.01 of the General Conditions, the executing agency pledges to establish an accounting system that breaks down the financial activities in each co-executing agency and to present the information requested for the program semi-annually and annually in consolidated form.

IV. FEASIBILITY, BENEFITS, AND RISKS

A. Technical feasibility

- 4.1 The typical gaps in neighborhoods in the GCMA, identified through surveys of neighbors and land investigations, include, as indicated in Chapter I, the disorganized occupation of land, the absence of sanitation, road, and drainage infrastructure and social facilities, and shortcomings in garbage collection services. The objective of the investments proposed in the program is to address these situations through low cost solutions suited to the difficult terrain and geology of the settlements.
- 4.2 The technical feasibility of the investments to be financed by the program was determined based on an analysis of a sample of integrated projects in seven settlements selected by the municipalities. The SCEP prepared that sample, at the final design level, with support from local consulting firms and advisory services from international consultants. The communities were involved in the preparation process from the outset, to identify and prioritize the investments planned in each settlement.
- 4.3 The sample is representative of the universe of projects potentially eligible for the program and consists of four urbanization projects for informal settlements, corresponding to a total investment of US\$4.8 million, equivalent to 11.5% of total direct investment for this operation. Analysis of those projects made it possible to determine: the types of interventions, investment amounts, and services planned; technical problems; the potential environmental and social impact of the works; the solutions adopted to correct it; and the program cost structure. Based on that analysis, the type of works best suited to the situation in the settlements was determined. As a result, unconventional, low cost solutions were adopted, including simple works, requiring no further specialization for their design or construction.
- 4.4 The impact of the projects on sector investments and the execution and operating methodology of local community systems was studied and agreed to by entities in the sector (Table IV-1).

Table IV-1. Impact of program investments in the water and sanitation sector

Program investments are concentrated in local water distribution and sewerage treatment systems, which the community will run. It is the policy of municipal entities in the sector not to invest in new systems, but instead to require developers to do so. In the case of Guatemala City, the operation is undertaken by developers for a period of five years, after which it will be transferred to EMPAGUA for management. In poor communities or informal settlements, this process is repeated, but with systems almost improvised by the communities, which for the most part are not taken over by municipal entities.

By financing local systems, the program is subsidizing an investment that is normally made by the communities, since investments by sector entities are essentially directed at macro aspects of the systems (supply of raw water and control of losses and leaks and large sanitation works). According to EMPAGUA estimates, the investment needs for Guatemala City alone total US\$3.380 billion. Total program investments in household systems are approximately US\$6 million.

- 4.5 The eligibility criteria, cost parameters, and other aspects of the interventions to be financed are included in the program Operating Regulations. A project preparation guide was also prepared for contracting such works
- 4.6 To analyze the feasibility of the program's social interventions, two service delivery modalities were considered: (a) hiring CSOs to provide services; and (b) expanding existing municipal services. For the former, the preparation process identified and evaluated the main CSOs operating in the GCMA that provide services in the main areas to be financed under the program: childcare, educational enrichment, and support for vulnerable groups. That analysis found that existing entities have the capacity to effectively meet demand from program settlements. The technical capacity of municipalities to contract and supervise the delivery of those services was also examined, with support from the PCU. It was determined that while Guatemala City has experience with this type of contracting, Villanueva and Chinautla will depend to a greater extent on the PCU, at least initially.
- 4.7 Analysis of the sample also made it possible to rule out direct delivery of social services. Nonetheless, the Municipality of Guatemala's experience with administration by force account of some services (kindergartens serving children ages 0 to 7, enrichment services; and care for at-risk youth) as well as with the Community Homes Program (PHC) of the Office of the First Lady, will be drawn on to set up the program's social projects.

B. Economic feasibility

- 4.8 A sample of four integrated projects involving seven informal settlements located in the municipalities of the GCMA included in the program was evaluated. That evaluation consisted of verifying the appropriate size and the selection of the lowest cost option for the different components, as well as establishing cost-efficiency ratios for the eligibility of the remaining program projects. The projects in the sample will benefit 1,678 families on as many lots.
- 4.9 Table IV-2 presents the costs of installing integrated projects in each settlement in the sample, in all phases of execution.

Table IV-2 Projects in the sample					
Projects	No. of Lots	Cost in US\$ thousands			
		Prep/Super	Infrastructure	Social	Total
Finca San Julián	263	116.6	488.0	244.7	849.3
Las Torres	211	82.9	282.7	161.1	526.7
Zona 18 (3 settlements)	743	307.5	1,249.9	463.1	2,020.5
Las Colinas	461	197.2	750.8	435.5	1,383.5
Total	1,678	704.2	2,771.4	1,304.4	4,780.0

- 4.10 The proposed designs for the infrastructure subcomponent were scaled taking into consideration the physical and socioeconomic characteristics of the settlements, and they are low cost solutions. In most cases, there are no significant variations among the alternatives, given the similarities in the demographic density and topographical characteristics of the settlements, which were determining factors in designing the proposed solutions. Another determining factor for the cost of investment projects was the use of unconventional solutions. Thus, for example, the water supply solutions provide for connection to the existing public system or well drilling; sewerage solutions provide for condominial network systems and treatment of wastewater in collective septic tanks; the road plans seek to guarantee the settlement's access to basic services, such as garbage collection and access to dwellings via footways or stairways; electric street lighting and household connection systems are consistent with the minimum standards of the service provider; and the measures for preventing future invasions focus on reforestation free or freed areas. A comparative study was also conducted between the cost of environmental protection works to protect the families and the cost of resettling the affected families; in all cases, the cheaper solution was selected.
- 4.11 Based on the sample of projects, a cost-efficiency ratio or the maximum cost per lot/beneficiary for each type of investment was established. The maximum cost per lot in infrastructure, calculated by adding 15% to the average cost per lot, was set at US\$1,790.00. That amount includes investment expenses (per lot) in road systems, including storm drainage and pedestrian and vehicular passes (US\$716); water supply, wastewater collection and treatment networks (US\$467), tree planting along roads, reforestation of protected areas, and solid waste (US\$70); power (US\$304); and environmental protection and resettlement of families (US\$233).
- 4.12 The social subcomponent provides for investments in multiuse community centers (with physical space for daycare and school enrichment services), multi-sport courts, and the cost of providing assistance to vulnerable families on nutrition, hygiene, preventing domestic violence, etc. It also includes the operating cost (60% in the first year and 40% in the second) of daycare centers and school enrichment programs. The balance will be paid by the beneficiaries, the municipalities, and central government resources being earmarked to these sectors.

- 4.13 The daycare and school enrichment services were scaled to meet only part of the demand in the communities. The costs of those services were reviewed and are at the level necessary to provide minimum standards of quality to the beneficiaries. When possible, the subcomponent seeks to maximize existing services by reconditioning facilities and purchasing additional equipment and furniture to meet demand in the community (for example, La Torres).
- 4.14 To determine the eligibility of daycare and school enrichment projects, cost-efficiency ratios were calculated, based on the sample of projects in the program. The daycare projects will have a maximum cost per family of US\$177 and US\$671 per child/year served. For school enrichment projects, the maximum costs per family will be US\$70 and US\$286 per pupil/year served. The maximum expenditure per family in the social subcomponent was set at US\$897.
- 4.15 In addition to the direct costs of the infrastructure and social subcomponents, the expenses for preparing projects and supervising works were estimated, including community participation, regularization of property, and supervision of works. The maximum cost set for these expenses was US\$461 per family.
- 4.16 Based on the analysis of the sample, the maximum cost per lot was set at US\$3,150, which will be used as a socio-economic eligibility criterion for the remaining program projects. Comparing those amounts with those from similar projects financed by the Bank, they are found to be within a reasonable range for the types of projects planned. Table IV-3 indicates the main cost categories for the projects in the sample.
- 4.17 Based on available information on income and costs of the infrastructure services planned in the program, it is estimated that most families will not have difficulty paying for the services delivered. Once the program financing for social services has been fully disbursed, the municipalities and the community will have to assume the cost of operating the day care centers. While these services are being set up, every effort will be made to involve associations and individuals from the communities themselves in the administration and financing.

Table IV.3
Cost of interventions in the sample projects
(US\$ per lot)

Categories	S. Julian	L. Torres	Zone 18	Colinas	Average
Water supply	65.9	88.1	79.9	276.4	127.5
Sewerage	242.1	289.2	371.9	286.4	297.1
Roads	381.0	713.3	740.1	770.2	651.1
Power	271.6	186.6	447.1	200.8	276.5
Env. prot./resettlements	788.1	0	0	58.2	211.6
Other ⁹	107.8	62.8	43.4	37.2	62.8
Subtotal	1,855.4	1,340.0	1,682.3	1,628.8	1,626.6
Social facilities	561.3	444.6	366.6	592.3	491.2
School enrichment	77.1	66.6	42.4	68.3	63.6
Daycare centers	192.2	152.3	114.3	184.2	160.7
Integral support-families	100.0	100.0	100.0	100.0	100.0
Subtotal-Social	930.5	763.5	623.2	944.7	815.5
Prep/superv. of works ¹⁰	443.3	392.8	413.9	427.7	419.4
Total	3,229.3	2,496.3	2,719.4	3,001.1	2,861.5

C. Social feasibility

- 4.18 A social appraisal was prepared for each project and, together with the census conducted in each locality and the results of the community participation activities, it allowed for a detailed socio-economic characterization of communities in the sample. In terms of social organization, all the settlements have a formal organization recognized by the corresponding municipality; therefore they are a valid community partner. This condition is a requirement for other settlements to be included in the program. The work experience with the communities on the projects in the sample made it possible to identify the priority problems and solution options and to verify the communities' interest in and commitment to being involved throughout the process. That commitment and the consensus of the beneficiary families are extremely important, because the management and operating modalities to be installed for the sanitation and social service systems will require changes to individual and collective behavior.

D. Institutional feasibility

- 4.19 Preparation of the projects in the sample allowed for an evaluation of the program's institutional feasibility focusing on the capacity of: (i) the Secretariat of Executive Coordination of the Office of the President of the Republic (SCEP) to exercise strategic and intersectoral coordination of the program; (ii) the Program

⁹ This includes tree planting, reforestation, and solid waste.

¹⁰ This includes the design and oversight of works, community participation, and regularization of property.

Coordinating Unit (PCU) to execute program activities; and (iii) the participating municipalities to promote the projects and ensure the operation and maintenance of the social programs and works.

- 4.20 **Execution capacity of the SCEP.** The central structure of the SCEP is officially formed to: (i) supervise several investment programs of the central government, the executing units of which are under the authority of the Secretariat; and (ii) channel the resources earmarked for their execution. The execution modality for these programs varies according to the size and complexity of the works; in some cases, they are executed by force account with support from the communities and in others, by contracting private construction enterprises. The investments are in the following sectors in both urban and rural areas: education, social assistance, health, environmental sanitation, security, transport and roads, power, and municipal works. In exercising its functions, the SCEP works with resources from the central government and from international actors, such as the Central American Bank for Economic Integration (CABEI), the European Union (EU), and GTZ.
- 4.21 The SCEP has broad experience implementing investment projects, although to date it has been oriented sectorally. Given the multisectoral nature of the proposed program, it was deemed necessary to strengthen the SCEP's technical capacity. To that end, with financing from the Project Preparation Facility (PPF/014-GU), a Program Coordinating Unit (PCU) was established. The PCU, composed of one coordinator and technical and social professionals, has been responsible for preparation activities for the projects in the sample. This has enabled it to become familiar with the program and its operating needs, the administration of financial resources, project quality control and evaluation processes, and Bank procedures.
- 4.22 **The municipalities.** In terms of institutional development and administrative and service delivery capacity, there are marked differences between the Municipality of Guatemala City and the municipalities of Villanueva and Chinautla. The level of development of the latter two is incipient, while Guatemala City would be in a position to administer the main public services that the program will deliver in settlements in its jurisdiction. Furthermore, its experience with community or outsourced management of social actions, albeit limited, will facilitate the installation of those actions through CSOs.
- 4.23 The municipalities of Villanueva and Chinautla, in turn, will need strong support in order to guarantee adequate management of program projects. The program will pay particular attention to aspects to strengthen municipalities' technical capacity, by hiring national specialists in integrated project management and administration. Those specialists, together with municipal experts, will form the local execution units.

E. Program sustainability

- 4.24 The manner of ensuring project sustainability, particularly the social impact, will ultimately depend on community involvement in determining and designing projects, selecting and locating community teams, and operating and maintaining services. To that end, community enterprises will be formed to maintain and operate the systems, with support from the expert from the municipal water and sanitation enterprises or departments.
- 4.25 The local water distribution and sewerage treatment systems will be run by the community itself, organized in local enterprises. Those enterprises purchase water in bulk from municipal enterprises or tap their own sources (wells). Adopting septic tank solutions will minimize maintenance of wastewater disposal. The program will lend technical support for organizing these enterprises. The development of local self-organization and participation capacity will use the methodology designed for that purpose and include training and education of the communities on system maintenance and sanitary and environmental education. The training will also guide these communities to assume responsibility for payment of the rates required to finance the operation and maintain and administer the services. Those rates will be calculated to comprehensively cover the operating, maintenance, and administration expenses of the water and sanitation systems, in keeping with the Bank's public utilities policy.
- 4.26 The infrastructure projects will become financially sustainable in keeping with the regularization of property, which will allow for application of existing mechanisms in the municipalities and service enterprises to finance the urban services normally provided. Social services will be financed by contributions from the beneficiaries, with collaboration from the corresponding municipalities (see paragraph 4.16).

F. Environmental feasibility

- 4.27 The environmental assessment of the program is based on an environmental impact assessment strategy (EIA) prepared for that purpose. The strategy establishes the project analysis methodology that will be applied in each intervention per settlement and has been integrated into the project cycle. The program Operating Regulations and the additional measures developed based on the EIAs of the projects in the sample and included in the Environmental and Social Management Plan will ensure the environmental and social feasibility of the operation.
- 4.28 The studies of environmental considerations of the projects that will be part of the pilot sample focused on identifying the positive and negative impact of typical program investments. Based on those studies and Bank experience with such projects, protection measures were identified (preventive, corrective, mitigation, or compensatory) to be adopted by the entire program, as well as selection criteria for settlements and environmental eligibility criteria for evaluating each project. Based on the resulting environmental procedures, an impact assessment strategy was

prepared and incorporated into the project cycle. Specific environmental procedures are contained in the program Operating Regulations.

- 4.29 The analysis of projects in the sample found that, in general, they have a positive social and environmental impact stemming from: (i) the installation of water, sewerage and wastewater treatment services that markedly improve the population's health conditions; (ii) storm drainage works that reduce the risk of landslides and floods; (iii) delivery of garbage collection and disposal services, which reduce the risks of disease and environmental pollution; (iv) environmental protection works, such as retention walls, stabilization of slopes, construction of gabions, and reforestation, which reduce the risk of landslides; and (v) relocation of families living in high-risk areas. The works to improve basic infrastructure will have a positive impact on: the quantity and quality of drinking water available per family; the levels of pollution from discharging untreated wastewater into streets and ditches; air quality, which is currently affected by the accumulation of solid and liquid waste in the open air and burning garbage; family security; and the quality of life in the settlements and the surrounding areas. The potential negative impact will be direct, small in scale, local, easy to manage, and mostly temporary, since it will primarily occur during construction of the works. Environmental technical specifications were developed for each type of work, which will be attached to contracts for urbanization plan preparation, design, and works construction or supervision, to ensure implementation of measures to protect against the direct environmental impact. The program will also design and adopt environmental technical specifications for operating and maintaining the works, in keeping with the capacities of the respective operators.
- 4.30 The environmental control procedures that will be adopted by the program will meet national regulatory requirements and Bank policy. Environmental impact studies will be prepared for each integrated project or settlement. The environmental impact and environmental management procedures will be monitored by the PCU by hiring an environmental expert and/or consultants to review the studies, the project monitoring reports, and application of the procedures adopted during the construction or operation of the works. That person will also supervise the implementation of social and community participation activities in each settlement. The program will also support the revision or, where appropriate, the preparation of municipal land use standards and urban management plans. Those plans and the training for municipalities to implement them will be an important step in preventing future land invasions and adverse environmental impacts.
- 4.31 **Resettlement:** Given the nature of the program, which seeks to settle families on the land they occupy, few families will be relocated. Based on the sample, it is estimated that less than 5% of total households in each settlement will be relocated. This is because the selection criteria exclude settlements with very steep slopes and dwellings located in high-risk areas (see Table II-5). However, the need for resettlement can arise in two situations: (i) due to the design requirements of the

urbanization project; and (ii) in cases where the dwelling is located in environmentally protected or extreme risk areas. The solutions in those cases are compensation or voluntary relocation within the settlement to dwellings built by the program. Relocation is always the most expensive, more socially complex option, so the urbanization design will include several options to minimize the need for it. Compensation is only adopted when the family expresses an interest in that solution. It should be noted that the process of relocating families is consistent with the requirements of the Bank resettlement policy (OP-710).

G. Targeting poor beneficiaries

- 4.32 This operation qualifies as a social equity enhancing project, because it proposes actions to improve shantytowns, as described in the indicative targets for Bank activities mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI).

H. Gender considerations

- 4.33 Preparation of the projects in the sample has made it possible to identify a high capacity among women to organize and participate in prioritizing needs and identifying social projects to be financed by the program (hence the inclusion of daycare centers, school enrichment, and care for vulnerable groups in the operation). The program will strengthen and expand their organization through training activities to strengthen women's intervention in decision-making throughout the project cycle and in aspects linked to controlling the quality of service delivery and maintenance. The program will also train women on issues related to food and environmental hygiene, basic nutrition, organization of youth clubs, care for single mothers and at-risk adolescents, supervision of the childcare and school enrichment programs, etc. It will promote participation by women in promotion and publicity campaigns aimed at improving the well-being of families and communities. The program is also expected to expand employment opportunities for women by implementing social projects, particularly daycare centers and school enrichment activities.
- 4.34 The program will also have a significant impact on gender equity in the distribution of the economic benefits derived from property titling by ensuring that both partners in the couple share ownership. This eliminates the current discrimination against women for credit, while protecting them in decisions regarding the property in the event of a separation or divorce. To ensure fulfillment of this requirement, the legalization process will be monitored during program execution.

I. Benefits and risks

- 4.35 **Benefits.** The program interventions will provide approximately 85,000 residents of the settlements with access to water, sewerage and drainage services, road access, garbage collection, and plazas and recreational spaces, *inter alia*. The program's

main benefit is its impact on the living conditions of this population, which represents 13% of the poorest population in the GCMA residing in spontaneous settlements. These improvements will have a positive impact on poverty indicators measured in terms of unmet basic needs (UBNs). Other benefits include security of land tenure stemming from the property titling and its potential impact on the appreciation of that property. Likewise, the program will help to reduce the risks associated with poverty for the most vulnerable families residing in these settlements, particularly children, adolescents, and female heads of household who are targeted by program activities.

- 4.36 **Risks.** The main program risks fall into three categories: (i) cooperation between the central government and the municipalities; (ii) the technical complexity of the program; and (iii) community participation.
- 4.37 The program operating plan involves close collaboration between the central government and the participating municipalities. Because coordination of actions and priorities among different levels of government has been difficult to achieve in some past operations, this could be a risk factor for normal program performance. To mitigate this risk, the SCEP and municipal governments will sign participation agreements, clearly stipulating the roles and responsibilities of each party. Mechanisms for consultation and participation between the beneficiary communities and local governments will be promoted. This will make it possible not only to ensure consensus in decision-making but also to create spaces for the communities to express their opinions and make their needs understood.
- 4.38 Regarding the technical complexity of the program, like all integrated projects, simultaneous execution of several components is an institutional challenge, particularly when the country has little experience with this modality. To minimize this risk, international consultants will be hired to support the PCU with general program management and technical aspects of engineering and urbanization. Each municipality, in turn, will receive technical assistance aimed at strengthening its capacity to evaluate and monitor infrastructure and social projects.
- 4.39 Another element of risk is that the sound development of the interventions depends on the community response. To mitigate this, community participation is planned in all phases of the program to attempt to guarantee that the interventions are consistent with the objectives and priorities of the beneficiaries and, in that regard, help to keep the community organized and involved, directly or indirectly, in preserving the investments and services.

**URBAN POVERTY REDUCTION PROGRAM
LOGICAL FRAMEWORK**

Executive Summary	Indicators	Means of Verification	Assumptions
GOAL:			
To help reduce poverty in the urban areas of the department of Guatemala by increasing coverage of urban and social services in shantytowns of the Guatemala City metropolitan area (GMAC).	85,000 persons in the GCMA overcome their situation of poverty (measured in terms of UBNs) in relation to the base year (without the program).		
PURPOSE:			
To improve the quality of life of the inhabitants of shantytown settlements in three municipalities in the GCMA.	Health conditions in program settlements improve 100% by the end of the program.	Opinion surveys among beneficiaries and program monitoring and evaluation reports.	Sustainable economic development.
	80% of beneficiary families improve their hygiene practices (washing food, appropriate disposal of waste, etc.) by the end of the program.		The community is involved in defining and supervising program projects and services. The community accepts and complies with paying charges for services.
	Accessibility to the settlements and dwellings improves 80% over the base year, by the end of the program.		
	Comprehensive care for children (number of children registered in daycare and school enrichment, number of families who receive training on childcare, accident prevention, etc.) improves 70% at the end of the program.		The beneficiaries, municipalities, and central government assume the costs of the services after program financing ends.

Executive Summary	Indicators	Means of Verification	Assumptions
COMPONENTS:			
I. Integrated projects			
a. Community participation			
1. Actions to promote and support community organization to ensure community involvement in identifying, prioritizing, and monitoring project execution; administration, operation, and maintenance of community water systems, including collecting charges; support for the delivery of social services in the communities; and environmental protection.	100% of families sign the document adhering to the program and pledge to assume the responsibilities agreed to.	Records of families contacted and of participation at community meetings. PCU control registries. Program monitoring and evaluation reports.	The PCU, municipalities, and civil associations maintain effective communication and remain committed to the program.
b. Integrated urbanization			
1. <i>Basic sanitation</i> (water supply, sanitary sewerage)	100% of residents have access to water and sewerage by the end of the program.	Opinion surveys among beneficiaries and program monitoring and evaluation reports.	All the sectors and groups involved remain representative and maintain their commitment.
2. Road infrastructure	100% of main streets and 80% of secondary streets are paved and have storm drainage by the end of the program.		
3. <i>Power and street lighting</i>	100% of main streets and 60% of secondary streets have street lighting by the end of the program. 100% of dwellings are connected to power service by the end of the program.		
4. <i>Regularization of property</i>	The titling process is approved for 100% of lots in the settlements. 100% of families headed by partners share titling of the property.	BANVI and FOGUAVI records	
5. <i>Environmental protection, prevention of natural risks, and resettlement</i>	100% of settlements have mitigated the main risks by the end of the program.	EIA, certification by CONAMA, and PCU monitoring reports on environmental control procedures.	

Executive Summary	Indicators	Means of Verification	Assumptions
<p>6. <i>Social facilities (daycare centers, community centers, and sports fields)</i></p> <p>c. Social development and integration</p> <p>1. <i>Preschool care</i> (daycare centers)</p> <p>2. <i>School enrichment</i></p>	<p>100% of the settlements have at least one daycare center operating on its own site or in a community center by the end of the program.</p> <p>100% of the settlements have a space for the school enrichment activity in a community center or school by the end of the program.</p> <p>100% of the settlements have built a community center that is operating by the end of the program.</p> <p>100% of the settlements have built at least one sports area that is operating by the end of the program.</p> <p>20% of the potential demand for daycare for children ages 0 to 6 is met by the end of the program.</p> <p>100% of daycare centers provide nutritional development and comprehensive care for children by the end of the program.</p> <p>80% of children ages 7 to 14 served by the program improve their school attendance and performance by the end of the program.</p>	<p>Opinion surveys among beneficiaries and program monitoring and evaluation reports.</p> <p>Oversight sheets, municipality Social Action Office (DAS), Opinion surveys among beneficiaries, and program monitoring and evaluation reports of the program.</p> <p>Records of the Secretariat of Education and school reports on student attendance and performance. Program monitoring and evaluation report.</p>	<p>The central government and municipalities cooperate.</p>

Executive Summary	Indicators	Means of Verification	Assumptions
3. <i>Integral support for at-risk families</i>	100% of the families receive counseling on nutrition, hygiene, childrearing practices at home, and preventing accidents, domestic violence, and childhood illnesses by the end of the program. 100% of the families receive information on existing adult literacy and job training and placement programs by the end of the program.	Records from municipality Social Action Departments. Program monitoring and evaluation report.	
II. Program management	The PCU and all the participating municipalities receive training from the beginning and throughout program execution.	Semi-annual progress reports and the final program evaluation.	

**PROCUREMENT PLAN
URBAN POVERTY REDUCTION PROGRAM**

Main procurements	Financing	Bidding method (US\$)	Prequalification	Planned date for publication of the SPN
1. Program management				
Consultants with long-term contracts: US\$1,732,000 1. Key consultants for the PCU 2. Key consultants for the municipalities: engineers and social specialists 3. Specialized consulting services	74% IDB 26% Gov. of Guatemala	Over US\$200,000, ICB US\$40,000 to US\$200,000, LCB Under US\$40,000, LB	No	II/2002
Short- and long-term consulting services: US\$1,960,000 1. Management monitoring and control system 2. Program monitoring 3. External audits and annual reviews	100% IDB	Over US\$200,000, ICB US\$40,000 to US\$200,000, LCB Under US\$40,000, LB	No	I/2003
Equipment, goods, and related services for the PCU and municipalities: US\$18,000 1. Computer equipment	100% IDB	Over US\$250,000, ICB US\$50,000 to US\$250,000, LCB Under US\$50,000, LCB	No	II/2002
2. Program execution				
Project preparation and oversight: US\$5,400,000 1. Design of engineering and architecture plans for integrated projects 2. Community participation: technical assistance to form and/or strengthen social networks and community associations in identifying, prioritizing, executing, administering, and operating projects 3. Support for property regularization	100% IDB	Over US\$200,000, ICB US\$40,000 to US\$200,000, LCB Under US\$40,000, LB	No	II/2002 to II/2006
Integrated urbanization projects: US\$31,700,000 1. Physical works for social and urban infrastructure, such as: road systems, sanitation, street lighting, garbage collection, plazas and recreational areas, schools, community centers, daycare centers, and sports fields	90% IDB 10% Gov. of Guatemala	Over US\$1,500,000, ICB US\$250,000 to US\$1,500,000, LCB Under US\$250,000, LB	Yes	II/2002 to II/2006
Delivery of social services: US\$5,350,000 1. Comprehensive preschool care, school enrichment, and integral support for families	90% IDB 10% Gov. of Guatemala	Over US\$200,000, ICB US\$40,000 to US\$200,000, LCB Under US\$40,000, LB	No	I/2003 to II/2006

ICB International competitive bidding

LCB Local competitive bidding

LB Limited bidding

SPN Special procurement notice